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WORLD COOPERATION and POSTWAR PROSPERITY

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WORLD COOPERATION FOR POST-WAR PROSPERITY

By James S. Allen

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"In the field of foreign policy, we propose to stand together with the United Nations not for the war alone but for the victory for which the war is fought.

"It is not only a common danger which united us but a common hope. Ours is an association not of governments but of peoples—and the people's hope is peace. Here as in England, in England as in Russia, in Russia as in China, in France and through the Continent of Europe and throughout the world wherever men love freedom, the hope and purpose of the peoples are for peace—a peace that is durable and secure."

—FRANKLIN D. ROOSEVELT on the State of the Union, January 6, 1945.

WORLD COOPERATION FOR POST-WAR PROSPERITY

By JAMES S. ALLEN

Workers in industry and in uniform are looking forward to a post-war America in which they will be assured job security in a world at peace. Our war economy raised national production to the highest in history and provided full employment. After victory we must have a peace economy which will provide jobs for everyone.

The vast creative energy which will have brought about the military defeat of the fascist powers must be devoted to preventing a fascist comeback anywhere in the world and to assuring the economic base for this political struggle. The vast resources of our country harnessed in war must also be mobilized to secure the peace. War production serves the anti-fascist battlelines. Full production in peacetime must nourish world security. During war, our alliance with Britain, the Soviet Union and other United Nations assures the full utilization of our productive machine. During peace, this same alliance can provide the means for the full employment of our productive capacity and genius.

We cannot solve the problem of reconversion to peace by ourselves. We emerge from the war as the most powerful economic and military power in the world. Our tremendous productive machine and home market consti-

tute so large a sector of the world economy that we cannot make a single important move without immediately affecting the world. Developments outside our own frontiers have immediate repercussions upon our economy. World recovery and a durable peace demand full employment in the United States. And we cannot achieve peacetime prosperity at home without the rest of the world simultaneously taking steps for recovery. We need an expanding world economy as much as other nations need the products of our industry working at full capacity.

The problem of reaching and maintaining full peacetime employment has two complementary aspects. The first is to exert every possible effort to keep industry and all productive enterprise at home working at increasing capacity, deliberately applying programs which will lead to expansion of private industry and public works. The other is to adopt cooperative measures together with the other leading nations to expand trade and productive investment on a world scale.

It is with the latter aspect of the problem, particularly as it affects our home prosperity and the establishment of a durable peace, that this pamphlet deals.

I. PROSPECTS FOR WORLD COOPERATION

In exploring a post-war field as broad as this it is above all necessary to avoid the temptation of blueprinting a future in accordance with conceptions which have no direct connection with the day-to-day development of world relations. We shall get the future we make, primarily in the course of fighting the war to a successful conclusion, not only against the armed might of our enemies but also against their fascist order. The economics of victory and peace are so closely interwoven with the politics of coalition warfare and coalition peace-making that we cannot begin to view our post-war prospects with any degree of certainty unless we are determined to make a United Nations world. Highly favorable conditions for achieving long-range world cooperation are created primarily by the progress made during the war itself, and will be increased by the collaboration attained in the process of preventing the continuation or resurgence of fascism anywhere.

If the war is conceived as a strange interlude between a pre-war world dominated by the fear of fascism and a post-war world in which new fascist forces are to come to the fore, there can be no immediate hope for world democracy and peace. But once the war is seen for what it is—a radical turning point of world history—we can then view the years between the first and second wars as the "strange interlude" in which the world divided itself into two parts, one giving birth to fascism and the

other leading to inner expansion and progress under socialism. The latter contributes mightily to saving the world from fascist domination, and it is only through cooperation with the Soviet Union that the big non-fascist capitalist powers can now save themselves from fascism.

It is, therefore, a fundamental of world economic cooperation that it shall arise first of all from the peaceful co-existence of capitalist and socialist nations in a single world. That is the prerequisite of peace and well-being everywhere. To reject this principle is to return to the inter-war politics which raised the fascist monster to threaten the whole world.

But it would be highly unrealistic to assume that cooperation is to take place beween two systems which remain static and unchanging. Cooperation itself is both the product of change and the stimulant to change. Thus, when the dangers of hostile encirclement and isolation are no longer paramount, and world trends are overwhelmingly in the direction of democratic advance, the Soviet Union can be expected to attain new high levels of inner expansion and enter more fully and freely into joint undertakings of an economic and political nature with the other powers for the purposes of world security. With respect to the major capitalist powers, once they cut themselves completely loose from the anti-Soviet and appeasement policies which dominated them between the two wars, and which had the effect of crimping all of world economy, there will be opened before them new prospects of growth and development.

Vital changes in world relations already are emerging from the war, and affect all aspects of world cooperation. Within the capitalist world tremendous changes are proceeding. With the war brought to a successful conclusion, Germany and Japan will have been eliminated

as imperialist powers, if not permanently at least for some time to come. Of the two remaining major capitalist powers, the United States emerges as by far the most powerful. Britain already greatly weakened will have to make considerable readjustments, many of them of a critical nature, in her Empire and world relations. Deep-going social changes are to be expected in Europe producing new people's governments in a number of countries and resulting in extensive revisions in the old pattern of economic and political relations among the European nations and between them and the rest of the world. In the colonial and semi-colonial sphere, whole empires hang in the balance—including the British, French, Italian, Dutch, Spanish and Belgian—and new independent nations will arise.

It is thus in a world very much in motion, in which the clash of interests appears on every side, that a way has to be found to establish economic and political cooperation on the basis of the common national interest to achieve peace and prosperity. Reduced to its most essential components, without attempting to place them in order of importance or precedence, we may say that world economic-political cooperation involves (1) the attainment of full production and full employment levels in the United States and Britain; (2) the peaceful co-existence of capitalist and socialist nations; (3) reducing economic rivalries between the United States and Britain to a minimum and subordinating them to the goal of world security; (4) recognition of the right of self-determination for colonial nations and aiding them, as well as other countries having a colonial economy, to industrialize.

In the proposals of the Dumbarton Oaks security conference and the Bretton Woods financial conference we have the beginning of post-war world cooperation on the

basis of agreement between Britain, the Soviet Union and the United States. This cooperation during wartime, already looking forward to the transition to peace, must be developed to the maximum before the war ends to provide the framework within which the major problems of security can be solved.

II. EMPLOYMENT AND WORLD TRADE

President Roosevelt has set the goal of 60 million post-war jobs. That is the minimum required for full employment. To reach this goal there must be maintained, according to estimates of the Department of Commerce and the National Planning Association, a minimum national production of $170 to $175 billion. This figure is much larger than the value of our national product in any peace-time year. It is exceeded only by our production during wartime which in 1943 reached $186.5 billion.

In 1940, our last pre-war year, national production stood at $97 billion. We had nine million unemployed. The Department of Commerce predicts that if in 1946 we return to 1940 production there will be a 30 per cent drop in output and 19 million unemployed.

It also makes clear that we cannot afford to fall below the national production figure of $175 billion estimated as necessary for 1948, unless we are to have chronic large-scale unemployment. A reduction of 10 per cent, or $17.5 billion, would result in unemployment for seven million workers. A reduction of 20 per cent, or $35 billion, would lead to 13 million unemployed.*

To avoid this catastrophe for us and the world it is necessary to maintain production and employment near our wartime level.

About half of our wartime production was bought by

* Department of Commerce, *Markets After the War*, Washington, 1944.

the government. It will be necessary to find new purchasing power roughly equivalent to $90 billion, providing we maintain the present volume of wages as a minimum, since the workers supply the bulk of purchasing power at home.

Of the $90 billion additional purchasing power, at least one-third might be supplied by the federal and state budgets for necessary social expenditures and public works. In the first post-war years a large part of it will also be supplied by consumers at home from their own savings as they replenish their homes with articles unattainable during the war. A sizeable portion will also be taken up by business spending for replacement of machinery and new investment in home industries, especially the expansion of the newer industries. The limits of this investment in any single year may be roughly indicated by the fact that in 1941, when business was tooling up for war production, it spent about $19 billion.

Even with wages at a high level, with government spending more freely than before for social services and development, and with business maintaining a high level of investment at home, quite a gap would still remain between the level of production necessary to have full employment and the purchasing power available to buy it.

However, purchasing power for the profitable operation of our entire production machine does exist in the country. It is present in the form of vast capital accumulations which do not find their way into production through investment within the country. Inasmuch as such capital, under the present system, cannot be redistributed into the hands of those who would use it to buy consumers goods there is only one way in which it can be employed profitably. It must be used for foreign investments which

would create purchasing power abroad for the products of American industry. And it must be done on a scale which will assure full production and employment at home.

As Earl Browder points out, "The perspective of a vast expansion of America's foreign trade has become, of necessity, Item No. 1 in any program of reconversion to full production and full employment for peacetime. Without a vastly expanded foreign market, the American economy cannot even begin to think in realistic terms about the over-all problem of reconversion." *

When we compare our export figures over recent years we come to realize that the new task confronting us today exceeds anything we have ever attempted in the past. The highest ever reached by our exports was over five billion dollars in the boom year 1929. During the 'thirties exports never exceeded three billion in any year. But it must be remembered that this period was politically and economically unstable. The Soviet Union was isolated. The colonial world was stubbornly repressed and its economic development restrained. The major capitalist nations were dominated by fascist-breeding conflicts and policies. New norms have to be established in the light of what has now become both necessary and possible.

It is generally agreed that a great increase of exports will be required to keep our industries working and to meet the needs of the world. As to the level of post-war exports, estimates vary. The Department of Commerce, for example, basing its estimate upon the assumption that pre-war trade and investment policies will continue, finds that a seven-billion-dollar export volume in 1948 may be sufficient to maintain employment at home and

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* *Economic Problems of the War and Peace*, Workers Library Publishers, p. 11.

at the same time supply the goods abroad for which we may expect payment. A higher goal of $10 billion was set by Dean Acheson, Assistant Secretary of State, in a recent address to the National Association of Manufacturers. This figure is upheld by the National Planning Association, on the assumption that greater U.S. capital investment abroad will expand world markets.

A better indication of what may be possible is to be found in the level of our wartime exports. According to Lauchlin Currie, Deputy Administrator of the Foreign Economic Administration, these total about $14.3 billion annually, of which $11.5 billion is in Lend-Lease. He believes that this level must be maintained if we are not to be faced with great unemployment after the war.*

A great world demand for our goods exists. The problem is to supply goods under conditions which will enable foreign countries to pay for them. Expansion of American credit and investment abroad becomes inseparable from the expansion of exports. Large-scale foreign credits are already being negotiated, and in the immediate post-war years government loans and private short-term credits are expected to enable the war-devastated or weakened countries to resume their trade with the United States. Relief extended by our government directly as well as through the United Nations Relief and Rehabilitation Administration will play an important role in world recovery. But from the viewpoint of longer range export expansion, it will be necessary for some time to come for us to help finance world trade and maintain huge capital exports for productive investment. As the only great creditor nation in the world, the United States is called upon to play the leading role in world economic

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* *Foreign Commerce Weekly*, October 28, 1944.

recovery. Our most substantial contribution to world security is likely to be made through exporting a growing portion of our industrial production.

The United States is the only country able to provide extensive credits. This is a fact which cannot be altered by any agreement among the nations. But of decisive importance is the policy which the United States adopts to govern the utilization of its vast resources. Other nations, notably Britain, also face the necessity to expand exports beyond anything achieved before the war. The world market as a whole must be expanded and cooperative policies worked out jointly with the other leading nations to avoid a sharp economic struggle for markets which would result in restricting world trade. Whether this can be done depends primarily upon the policies adopted by the United States. If we attempt to use our virtual monopoly of big credit as a whip with which to obtain special privileges at the expense of other nations, as is being demanded by some big business circles, we will merely create new conditions for war. World security demands that we restrain those forces at home seeking exclusive advantage, and take steps to work out with other nations mutually satisfactory means for the most beneficial and profitable utilization of our vast industrial power.

This is the main question which our economic policy must answer.

III. BRETTON WOODS

A very significant step toward world economic cooperation was taken by the United States at the conference which met at Bretton Woods, N. H., from July 1 to 22, 1944. Here representatives of our country met with delegates from the governments of 43 other United and Associated Nations. Long preliminary discussions among the governments had preceded the conference. And at Bretton Woods unanimous agreement was reached on two important proposals to be placed before the governments for approval. One is for the creation of an International Monetary Fund and the other for the setting up of an International Bank for Reconstruction and Development, both to be under the direct and joint supervision of the governments involved.

This was the first conference in which long-range economic agreements were reached among the United Nations. It demonstrated that agreement between Britain, the United States and the Soviet Union is essential if agreement among all the United Nations is to result. In contrast to the Civil Aviation Conference held later in Chicago, Bretton Woods showed that the differences, in many cases very sharp, between Britain and the United States can be adjusted once they are submitted to joint Anglo-Soviet-American action and are treated as problems to be solved in connection with the predominant policy of world security.

Another greatly significant aspect of the Bretton

Woods conference is the constructive and cooperative policy shown there by the U. S. government delegation. The American contribution at Bretton Woods was to make clear to the world that the Administration was seriously embarked upon an economic policy of world cooperation as opposed to a policy of going it alone against all rivals and competitors.

This was accomplished only by overcoming serious resistance in and around the Conference itself. Opposition to the policy followed at Bretton Woods remains strong and a strenuous fight in and out of Congress can be expected on every proposal involving a cooperative approach by this country.

The International Monetary Fund

The Bretton Woods conference proposed an International Monetary Fund of $8.8 billion. Each of the United Nations is to subscribe an amount roughly equivalent to their relative position in expected post-war trade. Thus, the United States would be the largest subscriber with a quota of $2.7 billion; while Britain and the Soviet Union would be close seconds, with $1.3 billion and $1.2 billion respectively. Each member nation is to have voting power in direct ratio to the amount of its subscription.

The immediate purpose of the Fund is to encourage world trade by helping the countries weakened by the war to finance their imports. It would also stabilize currencies for the purposes of trade between nations. The long-range purpose of the Fund is to stimulate trade by eliminating restrictions such as currency depreciation, bilateral trade agreements, barter and other devices used by competitor nations to gain exclusive markets.

In practice, it means the extension of short-term credits through the Fund to nations without the means to pay

for imported goods. Especially in the immediate post-war years most of these credits will be in dollars for the purchase of American products. While recognizing the prime role to be played by American production and capital, the Fund at the same time establishes the means for the cooperative determination of terms upon which American goods and services are to be accepted.

Lend-Lease was a recognition of the fact that our Allies were unable to pay cash for the goods they needed from us to fight our common war. We sent them the goods without bothering to give them the money with which to pay for them. After the war many countries, particularly those which have suffered most from the war, will be in desperate need for goods. They will not have the money to pay for them. And yet it would be disastrous for them and for the United States if we refused to export to them.

It would be disastrous for us, for without supplying foreign markets on a much vaster scale than before the war it will be impossible to have full production and employment at home. The problem would be greatly simplified if in return for the goods we sent other countries we could import from them an equivalent amount. But the world demand upon us for goods for a long time will be much greater than our need to import. Yet no one would suggest for this reason that we cut our exports to the amount we can import, which would result in economic stagnation and crisis. We must, therefore, extend credit not only in the interest of world recovery but especially out of our own self-interest. The cost of withholding credits is much greater than the cost of extending them.

Once this is recognized the only question remaining is what is the most beneficial form of extending credits

—through deals between individual countries or through a central fund on the basis of principles laid down in advance by all participating countries, as proposed at Bretton Woods.

The first method would lead to bilateral and regional pacts, encompassing groups of countries tied to one or another of the leading powers. This method is certain to lead to unrestricted economic warfare, especially between Britain and the United States. It is just that which the Bretton Woods proposal is designed to help prevent.

By itself, the Fund does not pretend to solve basic problems of world economy. It is one of a number of measures necesary to establish a framework of cooperation on world economic questions. It will help the countries weakened and devastated by the war along the road to recovery, although they will also depend largely upon direct relief and upon reparations in material and labor from the defeated enemy countries. However, the Fund is an important departure in economic policy, evolved to meet a situation in which the United States, Britain and the Soviet Union will have to cooperate vigorously for the purpose of stabilizing world economic relations.

Bank for Reconstruction and Development

In addition to the short-term credits provided by the Fund, there will be great need for long-term loans for reconstruction and productive purposes. The other main Bretton Woods proposal, the International Bank for Reconstruction and Development, is designed to help fill such needs. With a subscribed capital of over nine billion dollars, the proposed Bank is authorized to make long-term investments and to guarantee private international loans, wth special consideration to countries which have suffered from hostilities and enemy occupation.

Only 20 per cent of the Bank's capital is to be used for direct lending; the remaining 80 per cent is to be used to guarantee private loans. Capital is to be contributed by each country in about the same ratio as to the Stabilization Fund, to which the Bank is closely linked. As with the Fund, voting power is in direct proportion to the capital subscribed by each member nation.

The new element in this plan is the joint responsibility taken by the United Nations governments, especially by the Big Three, in extending or guaranteeing international investments for the purposes of long-range economic development. A dramatic demonstration of the Soviet Union's intention to play an active role in world economic as well as security problems came at the close of the Bretton Woods conference when the U.S.S.R. voluntarily increased its contribution to the Bank to $1.2 billion dollars, after a subscription of $900 million had been agreed upon. In his closing speech, Secretary of the Treasury Henry Morgenthau hailed this act as "an indication of the true spirit of international cooperation demonstrated throughout the Conference."

At the amount it is capitalized, the Bank would meet the vast credit needs of the post-war world only in part. It is therefore not envisioned that all international investments will flow through the Bank or that it will be called upon to guarantee more than a portion of all private investments. But it is expected that the Bank will advance or guarantee loans where most private investors would not consider the risk worthwhile, as in war devastated areas and to countries seeking to develop their nationalized industries.

The operations of such a Bank would directly influence the expansion of world trade as a whole. In the first post-war years it will have the effect of increasing U. S.

exports especially, because most of the loans will be in American dollars with which to buy the machinery and equipment needed for reconstruction and development. Thus, if the loans are made at the rate of one billion a year and if these are largely dollar loans the result would be to increase our exports by about the same amount annually.

The main thing is that loans extended or guaranteed by the Bank could be channeled in such a way as directly to serve the interests of world security. As with the Fund, the Bank is to be run by cooperating governments which are committed to the policies enunciated at Teheran and Dumbarton Oaks. Thus, countries liberated from the Axis and lands with a colonial or semi-colonial economy stand much better chance of receiving through this institution the kind of loans which will facilitate their evolution as free and progressive nations unhampered by restrictions on their economy and by political mortgages of the kind exacted by powerful private bankers in the past.

As an instrument of the cooperating powers, the Bank can play an important role in helping prevent a resurgence of German fascism in Europe. It will be necessary to have inter-governmental, especially Anglo-Soviet-American, supervision over all economic relations pertaining to Germany. In order to avoid the restoration of imperialist Germany, as was done after the last war, it will be necessary among other things, to control all capital investment in Germany, and this can best be done through the Bank.

What is involved is the disposition or control of German heavy industry, the final determination of what is to be done with the Ruhr, Saar and German Silesia—the backbone of German heavy industry and at the same

time the nerve centers of industry in Europe as a whole. Also involved is the question of reparations in kind and in labor, for these can be determined in practice mainly on the basis of deciding what proportion of the German economic capacity shall be permitted to operate to meet home consumption needs, how much capital is to be invested in converting industry to these needs, and what proportion shall be used for redirecting and developing such heavy industrial centers as remain within Germany or are taken from German control. Also basic is the need to discover and extirpate every trace of German cartel operations throughout Europe, which serve as a base for the resurgence of fascist forces. These problems involve not only the direct participation of the Big Three, but also the most intimate cooperation of the European governments.

Such tasks require that all capital investments be submitted to the control and exacting scrutiny of an intergovernment organization following a world security policy. In this connection, the Bank will undoubtedly participate in many functions relating to the peace settlement, like financing the rebuilding of devastated areas, the development of territories held under United Nations jurisdiction, the transfer of populations, and administration of various economic holdings.

Bretton Woods represents an auspicious beginning in international economic cooperation. The International Monetary Fund will be of aid to the countries suffering most from the war for it will help them resume and stabilize their trade. The International Bank for Reconstruction and Development will help not only the war-devastated countries but also the economically backward to undertake long-range national projects. Both institutions will contribute to trade expansion, which is essential

for full production and employment at home. The intergovernment managements of the Fund and the Bank, under a policy of collaboration of large and small nations, offers assurances that credits can be obtained on the basis of safeguarding the national sovereignties and developing the national economies. The participation of the Soviet Union, alongside of Britain and the United States, improves the prospect that economic rivalries between the two leading capitalist powers will be adjusted and subordinated to the needs of world security. Finally, the acceptance of these proposals by the United States would constitute an important victory for the policy of world cooperation and full employment as opposed to the policy of America Firstism and unemployment.

Neither the Fund nor the Bank will become realities unless countries subscribing 65 per cent of their capital approve the proposals. Britain and the Soviet Union, together subscribing about 30 per cent of the Fund's capital and 25 per cent of the Bank's, can be counted upon to support them. Quite apart from the technical question of the American percentage, the new institutions cannot be formed without the participation of the leading creditor nation.

IV. THE ECONOMIC ISOLATIONISTS

The real issue involved is more fully revealed when we come to examine the alternative policy advocated by opponents of Bretton Woods. Here we find a combination of isolationist politicians and die-hard old-line bankers arrayed in a common front against the policy of cooperation.

In urging Congress to reject the new financial institutions, Senator Taft of Ohio attempted to raise the bugaboo that we would be robbed of all our resources if we consent to have our money "loaned away by a board in which we have only a minority interest." This is a deliberate misrepresentation. The American government would in effect retain a veto power in the Boards of both the Fund and the Bank on American dollar loans, by virtue of its own large voting power but even more effectively because of its own powerful creditor position. But what the isolationist leader really has in mind is shown by the alternative proposal he offers:

> "The proper course would seem to be to reach some agreement with the British regarding the relation of the dollar and pound and then take up the other countries, one by one, and attempt to assist them by direct credits, if necessary, until their foreign exchange can be stabilized without loss." (*New York Times*, July 12, 1944.)

This is, in effect, the "key nation" or "key currency" approach advocated by the group of bankers who lob-

bied energetically against the Administration program at Bretton Woods and continue their efforts to defeat the proposals as they come up before Congress. The recognized spokesman for this group is Winthrop W. Aldrich, Chairman of the Chase National Bank and recently elected president of the revived International Chamber of Commerce.

The first thing to be said about the program which Aldrich offers "as opposed to the global approach of the Bretton Woods plan" is that it seeks to establish an Anglo-American bloc, without the Soviet Union and outside the United Nations cooperation envisioned at Teheran. In fact, the program is directed against the whole policy of Big Three cooperation and is, in essence, an expression of the forces and policies working for American hegemony in the world.

An attempt to form an Anglo-American bloc would encounter tremendous difficulties. The British themselves are obviously none too anxious to enter a partnership in which they would play the role of the decidedly minor partner, and in which they would steadily lose their own share in the business. This is indicated by the failure of Aldrich at the International Businessmen's Conference (Rye, N. Y., November 1944) to win the British delegates for a fight against Bretton Woods. He suffered an even greater rebuff when the Federation of British Industries, the English equivalent of the National Association of Manufacturers, gave its formal approval to the Bretton Woods proposals.

Besides, the "key nations" program would have the effect of sharpening the economic conflict between Britain and the United States. If it can be put into effect at all, it would split the capitalist world into economic blocs, a sterling currency group revolving around Great Britain

and a dollar group around the United States. The forces in Britain working for a "sterling area isolationism" and those in the United States working for a "dollar area isolationism" would be strengthened. Far from making possible a peaceful adjustment of differences between Britain and the United States, the Taft-Aldrich program would result in deepening the differences between them.

From the viewpoint of the colonial and small nations, a fitting reply was given Aldrich by Sir Chunilal B. Mehta, prominent Indian business leader, when he said quite plainly that the "key nations" approach will leave "each individual nation to the mercy of either the United States or the United Kingdom and would amount to dividing the world between the two great nations—the United States and the United Kingdom." (*New York Times*, November 14, 1944.)

However, the danger of the opposition typified by Taft and Aldrich should not be underestimated. They have powerful backing from anti-Soviet and pro-fascist elements, who hope to find a substitute for Hitlerism to act as a bulwark against the Soviet Union and against the democratic upsurge in Europe. Some undoubtedly speculate on the prospect that Britain may be convinced or forced to play such a role in return for more favored economic treatment at the hands of the United States.

Still another line of opposition is developed by the *New York Times*. This newspaper, a leading spokesman for certain high financial interests, has taken the contradictory stand of supporting the world security policy of Dumbarton Oaks and opposing the economic security policy of Bretton Woods. It rejects the proposal for the International Fund because it "means that America agrees in advance to lend each of more than 40 other countries up to a certain fixed amount of dollars, whether

or not there is any reasonable prospect of repayment, and regardless of the internal economic policies of each country or what it does with the money." Instead, urges *The Times*, loans "should be granted only when there is real prospect of repayment, and only on consideration of the adoption of sound internal economic policies in each borrowing country." The stabilization of the dollar, together with a halt to "deficit financing" and the balancing of the budget, "would supply not only an example but an anchor for other currencies." (July 18, 1944.)

With respect to the Bank, *The Times* finds distasteful any arrangement which runs counter to its fantasy of a "free world economy, with private lenders risking their own funds and borrowers seeking to meet their requirements, [where] loans would go to the countries and projects that offered the most attractive terms commensurate with the best prospect of repayment." (July 19, 1944.)

The mere statement of this position shows how antiquated it is from the viewpoint of meeting the problems posed by security in the post-war world. In common with the Taft-Aldrich position, *The Times* objects to any arrangements in which the borrowing countries will have a voice in regard to the terms and utilization of credits. It is proposed essentially that the United States take advantage of its prime power and economic position to fix the conditions upon which it will do business with other countries, including American dictation of the internal policies to be followed by them.

Actually, *The Times* refuses to accept as permanent the new relations arising from the war and the resulting unique conditions for doing business in the post-war years. These conditions were realistically described by Walter Lippmann:

"In a world where there is only one great power capable of extending large international credits, the creditor-borrower relationship of normal private affairs does not prevail. The other great financial powers are in a position to have a great deal to say about the terms on which they will accept credit."

And he continues, they will not accept terms "which they regard as dictation of their domestic policy by the United States, and as humiliating." (*N. Y. Herald Tribune*, July 13, 1944.)

An attempt to establish American dictation in world economic relations would not only undermine and eventually destroy world security but would have the immediate effect of restricting economic expansion and trade, with dire consequences upon our home economy. The position typified by the quotations from *The Times*' editorials is one in which the non-cooperative policy in world economic affairs is linked with the prospect of a contracting economy at home and abroad. *The Times* rejects vehemently proposals to expand investment either at home or abroad which at the same time do not offer ironclad guarantees for safeguarding the most reactionary vested interests and entrenching them still further. This is a policy which has as its general aim to avoid wherever possible the realization of the anti-fascist and democratic historic movements arising from the war.

The opponents of Bretton Woods are open to the charge that their position is tantamount to an attempt at political blackmail of the rest of the world. What they are saying is in effect that unless their terms are accepted they will keep their capital at home. We cannot fail to see in this position the threat by a sector of big business to call a "sit-down strike" of capital against Teheran and Dumbarton Oaks.

Much can be found in current financial literature to justify this interpretation. It is sufficient to cite a few sentences from a speech attacking Bretton Woods delivered by Aldrich before the Executive's Club of Chicago on September 15, 1944.

"In my opening remarks I suggested that political and economic problems take precedence over those of an international financial character. International financial questions are extremely important and must eventually be solved, but to attack them first may cause us to lose sight of the more basic problems. . . ."

"The quality of our leadership may easily determine whether the world will move towards free enterprise or towards collectivism. . . ."

"My own opinion is that capital exports on a large scale are not required under present circumstances and will be detrimental to debtor as well as to creditor nations." *

From recognition that political problems do in fact take precedence over all others, Aldrich proceeds to define the issue as between "free enterprise" and "collectivism" of which, in the context used by him, the Soviet Union is the outstanding example, and finally states baldly that capital exports should be restrained by the United States "under present circumstances." The circumstances which Aldrich finds so distasteful are the Anglo-Soviet-American collaboration aimed at the destruction of fascism and the creation of a world security system. And to prevent the further growth of that collaboration he would hold back the flow of American investment abroad without

* Winthrop W. Aldrich, *Some Aspects of American Foreign Economic Policy*, The Chase National Bank, N. Y.

which it is impossible to attain conditions of economic stability in the world and full employment at home.

Thus we see how it is possible to sabotage the aims proclaimed at Teheran and Dumbarton Oaks through the medium of blocking economic cooperation among the nations.

V. BRITAIN'S POSITION

The sharp economic rivalries between Britain and the United States are often cited to support the view that it is impossible to attain the cooperation needed for economic security and peace. That such rivalries extend into all parts of the world and deeply affect the British and American approach to the dominant political questions of the day, it is useless to deny. Yet it is erroneous to adopt a defeatist attitude towards the possibility of adjusting these differences in such a manner as to preserve the peace. Cooperation between Britain and the United States is essential if we are to enjoy expanding world markets and a long peace. Obviously, what is meant here is not the Taft-Aldrich conception of an Anglo-American pact directed against the world in general and the Soviet Union in particular, which would have quite the opposite effect of setting Britain and the United States even further apart from each other. What we have in mind is the only kind of Anglo-American cooperation which has any chance of survival in the post-war world, that is, a cooperation which constitutes an integral part of a broader Anglo-Soviet-American understanding.

To see the new conditions under which the Anglo-American rivalry functions, it is first necessary to understand the changed and changing position of Great Britain as a world power. The main thing to grasp in this connection is that the process of the economic weakening of Britain, which set in on the eve of World War I, has

been greatly accentuated during the inter-war years and particularly during the present war. This has taken place as regards Britain's position with respect to other big powers as well as within the Empire.

The war will eliminate German and Japanese imperialism as serious world rivals. At the same time, Britain's only serious capitalist rival, the United States, emerges from the war exceedingly more powerful than it has ever been. Within the Empire, Britain has had to give way to growing industrialization even in the colonies and to greater economic participation of the United States. The devastation of Western Europe, where before the war Britain maintained a special trade position, will make it impossible for her alone to help advance recovery and restore former advantages. It will be difficult for Britain to regain her favored positions in the Dutch, Belgian and Italian empires. She will find it difficult to maintain her commercial monopolies with countries like Argentina, traditionally within the British sphere of trade. In addition to all this, Britain's productive machinery at home, already on the eve of the war technologically behind other advanced countries, will stand in great need of rejuvenation and improvement if she is to compete successfully on the export markets of the world.

Formerly a great creditor nation, Britain emerges from the war as the greatest debtor nation in the world. From the start of the war to the end of 1944 Britain piled up a total net deficit of at least $15 billion, not counting Lend-Lease. Of this sum about $5 billion represents overseas investments and other assets which were expended to meet war needs. Together with permanent losses inflicted upon her investments in Europe and Asia as a result of the war, it is estimated that Britain's foreign holdings, upon which she depended for a sizeable

part of her national income, have been cut at least in half. The rest of the deficit is represented by sterling balances resulting from her inability to send exports to India, Egypt, Eire, Argentina and other countries in repayment for large-scale war imports from them.

An idea of the changed economic relations within the Empire can be gained from the following figures: It is estimated that in India, Britain liquidated $1.3 billion of her holdings, in addition to which she has to meet a claim by India of at least $3 billion held as a blocked balance. In Canada, Britain had to sell $750 million of her holdings; in South Africa, $600 million. After liquidating some $60 million in assets in Egypt, Britain has to find some way of refunding Egypt $1 billion now held as a sterling balance.*

All this does not imply that Britain will be helpless after the war. That she will make every effort to regain lost positions within the Empire and outside can be taken for granted. And this, irrespective of the political changes within the Empire now long overdue, provides the core of the rivalry with the United States.

Still another important aspect of Britain's economic position reveals her acute dilemma. After the war, Britain will stand in even greater need of exports than the United States. Because of her own limited natural resources at home, Britain traditionally imported much more than she exported. She needs to import large quantities of foodstuffs and raw materials for her industries. She paid for imports with her exports and from interest on her foreign investment as well as earnings from shipping, banking and other services connected with foreign trade. As we have seen, the war has greatly depleted these as-

* Figures based on estimates by Donald F. Heatherington in the *Foreign Commerce Weekly*, October 28, 1944.

sets. The pre-war income from overseas investments, for example, totalled $1 billion annually. The Secretary for the Department of Overseas Trade estimated that the loss of income from this source by the end of the war will be about $700 million, cutting the net income to about one-third of its pre-war figure. In addition, because of her own shipping losses and the largely increased American tonnage, earnings from brokerage, trade commissions and shipping charges will be considerably less.

Thus, in order to pay for the same amount of imports after the war as before, exports will have to be increased by at least 50 per cent over 1938. In a speech before the Investment Bankers Association of America, Ambassador Halifax of Britain, after explaining his country's desperate financial position, made an ardent plea for cooperation: "It is not going to help us to see again 10 million men unemployed in the United States. Nor is it going to help you to see Britain economically crippled through lack of purchasing power abroad."

He painted a vivid picture of what can be expected if we fail to follow the policy initiated at Bretton Woods. The only alternative for Britain, as well as the United States, would be to carve out exclusive and highly protected spheres in the world market. "And we can then spend some feverish years of jungle life, in a cut-throat war for international trade; of scrambling and outsmarting each other; of stealing each other's customers and blackening each other's faces, until another Hitler arises to exploit the miseries of the peoples and to multiply them ten-fold by another war." (*New York Times,* November 29, 1944.)

Lord Halifax is not imagining things. The alternative he pictured is being seriously considered by a number of British businessmen should the United States follow the

advice of the Taft-Aldrich group and veer away from the policy of Bretton Woods. A. R. Guinness, a leading merchant banker and Chairman of the British National Committee of the International Chamber of Commerce, also describes the alternative quite sharply:

"Bilaterism or barter trade between two countries should only be used as a fire escape and last resort. . . . The methods of Dr. Schacht are not for us *unless we have to use the fire escape*. . . .

"The question we are asking ourselves is, will our friends in the United States recognize their power in the world and that the decision they have to make will not only affect themselves but be for the good or evil of the whole world. There is no doubt that the American Administration thoroughly understands the problems." *

The threat of using the "fire escape" should be taken seriously. How seriously is shown by the British policy in liberated Europe which provoked civil war in Greece and sharp political crises in Belgium and Italy towards the end of 1944, at a time when Anglo-American economic conflict also came rapidly forward. These events reveal how far British policy will go—even to the extent of bolstering up pseudo-fascist regimes in Europe—in an attempt to retain former economic positions on the continent and in the Empire. For over a century accustomed to a position of world power, Britain is not able to adjust herself, without some very serious crises, to the new state of affairs in which she is the lesser of two other great powers. Alone, she has little chance of surviving as a world power in the face of the great expansionist potential of the United States and the liberating movements in Europe and within the colonial world. She

* *International Affairs*, London, October 1944.

can remain a great power only by virtue of her alliance with the Soviet Union and the United States. She can be big only as one of the Big Three. The "fire escape" would merely lead her from the fire into the abyss.

We have little to gain from isolating Britain and tearing her empire apart. The policy of isolating Britain only adds fuel to American isolationism and favors the emergence into a dominant position of all those forces seeking to grab for the United States the pieces and remnants of empire all over the world. Political pressure must be utilized fully to bring and keep British (as well as our own) policy more fully in line with the Teheran concord. But economic pressure by which we threaten to drive Britain from world markets is not a means which can safely be used. Economic cooperation, in which we offer to share new opportunities with Britain, is much more effective.

Under the present circumstances, rejection by Congress of the Bretton Woods proposals and others of a similar nature would amount to the declaration of an isolationist economic policy in general and of economic warfare against Britain in particular. Such a course can lead only to the strengthening of fascist elements everywhere, particularly to their encouragement in Britain and the United States, and towards a new world war.

There is room for vastly expanded exports from both the United States and Britain, providing only that world trade as a whole is increased. In closely guarded and restricted markets, accompanied by reactionary political deals, there would be enough for neither Britain nor the United States. In an expanding world market there will be room for both.

VI. FREE TRADE VS. CARTELS

Anglo-American relations approached a crisis stage during the International Civil Aviation Conference held in the late fall of 1944 at Chicago. From the start the Conference placed itself outside the realm of cooperation as defined at Teheran, Dumbarton Oaks and Bretton Woods, by inviting pro-fascist and anti-Soviet states to participate. The Soviet Union took the occasion to establish a fundamental point of policy by refusing to attend. On many occasions it had made clear that states which had remained "neutral" during the war and had in fact directly aided the Axis—like Spain, Portugal, Switzerland and Sweden—should not be entitled to enjoy the benefits of a United Nations victory. Nevertheless, the Conference seated the "neutral" and pro-fascist delegations, and proceeded without the benefit of Soviet participation.

Aviation is a key industry for world security. No country, especially a major power, for reasons of its own security, will permit foreign aviation unrestricted use of the skies over its own land. The Conference at Dumbarton Oaks acknowledged the strategic position of air power by its recommendation that an international air force be at the disposal of the security organization. In addition to these considerations having to do directly with the establishment of the peace, there is perhaps no other single industry in which Anglo-American rivalry is keener. And this also happens to be the field par excellence in which the establishment of rival commercial blocs is fraught with dangers for the peace.

It was inevitable that this non-United Nations Conference be shipwrecked on the rocks of the Anglo-American rivalry. Immediately, the Conference was divided into two wings, an American and a British. Under the leadership of Adolph A. Berle, Jr., then still in the State Department where he led a stubborn Munichite group, the American delegation insisted on "free air" which in practice would assure the American companies a monopoly of the international air lanes. The British wanted to reach an accord which would allocate national participation on the world air lanes and compensate for the tremendous competitive superiority enjoyed by American production and resources. They therefore favored an international air authority which would establish national quotas, rates and loading privileges within countries traversed by global air routes. The Americans attacked this as "cartelization" of the air, and would agree to an international organization only of a consultative character without power to impose regulations of a kind which would allocate air space.

The Conference proved incapable of solving the most important questions, and succeeded in aggravating existing differences and conflicts. The agreement finally reached on minor points left open the main issue.

The real issue was not as between free competition and cartel restriction, as most American press comment made it appear. The American delegation wanted "free air" much for the same reason that Britain maintained a free trade policy during the period when she enjoyed an industrial monopoly in world commerce. At that time, we set up a high tariff wall to protect our own industries from British competition. If we should attempt to throw the great weight of our aviation potential into an unrestricted fight for domination of the world's air lanes,

Britain and other countries will take retaliatory measures in self-defense. And this is particularly dangerous in the field of aviation.

For security reasons, as well as for the purpose of keeping the economic rivalry within safe bounds, it is necessary to have allocation of air routes under an international authority which owes it first allegiance to the principles of world cooperation for peace. In aviation, as in other fields, international economic agreements can become dangerous only when they are the instruments of private monopolies which determine their own policies irrespective of the requirements of a world security policy. Everyone knows the damage caused to our war effort by the cartel agreements of some of our big production combines with the German trusts. One of the chief weapons which Nazism now relies upon for a post-war comeback is the penetration by the German monopolies through cartel arrangements into the whole of the European economy as well as into countries like Argentina. These cartel ties will have to be completely unearthed and destroyed to prevent a resurgence of German fascism. And private cartel deals by British and American monopolies will have to be regulated in the public interest, if we want to maintain political supervision over all the forces working for a restoration of fascism in Europe and its encouragement elsewhere.

However, this does not mean to say that international economic agreements, in many cases involving allocation of markets, raw materials, and commercial routes in aviation and shipping, are in themselves bad. They will be necessary in order to arrive at some adjustment and control of economic rivalries which will subordinate them to the greater political purpose of peace. But the point is that such agreements have to be openly arrived at by the

governments of the United Nations and should not be left to the private monopolies as in the past.

Each nation will treat with its industrial monopolies in accordance with its own national policy—and this will vary from country to country, depending upon the general political atmosphere which prevails there. Britain, for example, intends to maintain extensive government supervision over industrial and business operations of its nationals at home and abroad. In the United States the degree of government supervision undoubtedly will be at a lower level. On the other hand, some of the new governments arising in Europe will take measures to nationalize important sectors of their economy and will find it necessary for reconstruction and development purposes to supervise practically all foreign economic relations. The less economically developed nations, particularly in the colonial and semi-colonial sphere, also find it a central function of government to plan and supervise the agrarian reform and many aspects of industrial development. In the socialist economy of the Soviet Union there is, of course, complete and thorough-going state planning and control of all economic operations.

Thus, there exists a wide variety of state-industrial relations within the capitalist and colonial sectors of the world economy, not to speak of the difference between the capitalist and socialist sectors. These are the conditions which must be taken into account by any agreement among the United Nations setting up a world authority regulating a sphere of economic activity.

The experience of the Civil Aviation Conference demonstrates quite dramatically that without the participation of the Soviet Union, the most effective and consistent force working for agreement among the main powers in the spirit of Teheran, Britain and the United States can-

not compromise their differences. This principle has the force of a law in present-day world relations. Without the active participation of the Soviet Union all world relations will tend to disintegrate under the impact of the Anglo-American rivalry. Where an Anglo-Soviet-American understanding exists, as was the case at Bretton Woods, it is possible to minimize and circumvent the Anglo-American rivalry, and in the process build up world cooperation.

This principle has to be applied to aviation as well as other pending questions awaiting international action. It should be noted that the Anglo-American agreement on oil signed August 8, 1944—and stymied in Congress by the American oil companies—provides that the oil problem is to be submitted to further international discussion. It is still not clear why the Soviet Union, a leading oil producer, was not involved in the original agreement. Shipping is another field in which the Anglo-American conflict predominates. By the end of the war we shall have some 50 million tons of shipping, as compared with seven million tons before the war. The problem of how to dispose of this vast tonnage and of the role our post-war shipping shall play in world trade must be submitted to international discussion. Other matters requiring world discussion and decision include the disposal of surplus commodities, access to strategic materials in addition to oil, supervision over cartels through United Nations agreement on trade practices, patents and similar problems. On all these questions, adjustment of conflicts between Britain and the United States can take place most smoothly as the result of United Nations action, particularly in cooperation with the Soviet Union.

VII. ROLE OF FOREIGN INVESTMENTS

In many parts of the world there is a tremendous demand for capital investment to be employed as soon as hostilities are ended, for purposes of reconstruction and national development. This demand will be greater than ever before, not only because of the devastation and dislocation caused by the war but because the prospect of a long peace presents extremely favorable opportunities for national revival and growth. Concentration on war production in Britain and America resulted in a real dearth of machines and other products of heavy industry available for export. Besides, it is well to remember, the less economically developed nations received the products of British and American industry and the benefit of their technological advance only in driblets during the decade preceding the war. The effects of the economic crisis together with the threat of Axis aggression hanging over the whole world practically put a halt to the flow of foreign investment for productive purposes.

At the same time, the necessities of war have resulted in a greater pace of industrialization in colonial areas and in the smaller nations. Despite various limitations caused by the war and by traditional policy, nations like Canada and Australia as well as lands of colonial economy like India and many of the Latin American countries have extended their industrial base. Whatever advances

have been made have merely whetted the appetites of such countries and demonstrated to others the possibilities which do exist. In the vast areas of the world which remain economically backward, as well as in the more advanced countries devastated by the war, there is a tremendous thirst for the benefits of modern industry.

In Europe the demand for capital—as represented in machines, construction, transport equipment, and the new technological skills and services—will be gigantic, especially when energies will be devoted to construction for peace. And entirely new markets for modern industrial products will be opened in Eastern Europe as fascism is destroyed and with it the semi-feudal system of agriculture which has been a dead weight upon modernization of the economy.

A few examples will suffice to indicate the vast industrial possibilities of the colonial and semi-colonial world.

During the next ten years, Latin America is in a position to absorb machinery and equipment totalling $9.8 billion, of which considerably more than half will be supplied by the United States, according to an estimate by the Office of the Coordinator of Inter-American Affairs. This estimate is based on a calculation of what Latin America can afford out of its own resources plus what can profitably be invested by North American capital.

The Bombay Plan, drawn up in January 1944 by a group of leading Indian industrialists and financiers, indicates how high are the industrial aspirations of India. The plan proposes to triple India's national income within 15 years. It is envisioned that industrial output will be increased five times while the output of agriculture will be doubled. Concentration is on basic industries such as machine, mining and metallurgy, electric power, chemical, transport and cement. The capital required is esti-

mated at $30 billion, to be provided internally as well as from trade and foreign borrowing.

A prominent British economist, Sir George Paish, recalls Dr. Sun Yat-sen's plan to construct 100,000 miles of railway in China and estimates that this alone would involve a capital outlay of $4 billion. Today, China has only 10,000 miles of railway, as compared with the United States which has 250,000 miles in an area smaller by one-fourth than China. And this is not to speak of the limitless demand which would arise for machinery and equipment of all kinds in a united China seriously embarked on its industrial revolution.

Plans such as the above would have been considered visionary a few years ago. Today, political changes emerging from the war bring them within the realm of the practical, not only in the countries mentioned but in the Middle East, Africa and remaining sections of Asia.

The United States will be called upon to provide the major portion of the foreign capital needed for such undertakings. It is in our national interest that the United States should provide capital abroad to the limit of its resources. Our prosperity depends upon other countries making use of our productive machinery and skills. For a number of cogent reasons having to do with our national interest we must put our idle capital to work abroad.

First, a large capital export is necessary to make possible exports of our products on a scale which will keep our productive machinery fully at work. Economists estimate that should U. S. post-war export trade increase by $5 billion over the pre-war level, this alone would account for five million additional jobs. But other countries cannot buy from us in the quantities which will keep our productive machinery fully at work unless we provide them with the means to pay. Foreign investments in the

form of loans and the establishment of productive enterprises provides these countries with the dollars to pay for American goods.

Second, large capital exports employed for productive development have the effect of raising the purchasing power of the country in which they are made, thus expanding the general market within the country.

Third, the utilization of the dollar loans and investments in construction and industry will enable the country in which these investments are made to utilize its own dollar balances for increasing its imports of consumers goods from the United States.

Fourth, the storing up of idle capital in this country has a retarding influence on the whole economy. When there is an easy flow of capital for productive purposes at home and abroad the national economy is stimulated. From the time we entered the war to the end of 1944, corporations increased their liquid assets by $30 billion to a total of $50 billion, according to the Federal Reserve Board. This capital has to be put to work if we are not to stagnate. Only a portion of it, perhaps even as much as half, can be reinvested internally for reconversion of industry and for new enterprises at home.

The flow of investments abroad from the United States will have to attain a level much beyond anything experienced in the past. Between the two wars the United States exported some $15 billion in the form of loans to governments and for productive investment. Capital exports came to a complete halt in the 'thirties, but at its peak the flow of capital reached over one billion dollars annually. But now, says the National Planning Association, failure of this country to invest abroad at a substantially greater rate "would be little short of disastrous from the world viewpoint." According to its estimates

there will have to be a net capital outflow of $3.7 billion annually by 1950 if we are to maintain a high level of exports.*

That figure may well prove to be low. At any rate, American capital will resume foreign investments. The point is to make them large enough to satisfy our own necessities and to meet the needs of the world. And it is equally important that they be undertaken in such a manner as to conform with the needs of world security and good-neighborly relations.

* One estimate is that world requirements for reconstruction and development will amount to $150-$200 billion in the first post-war decade. Of this amount, Europe is expected to require $40-$70 billion, while the remainder will be needed to continue economic development at a "normal" pace throughout the world. Another computation places the requirements of capital-importing areas at $13 billion annually for the next 16 years, half of which might be supplied by the United States. This would place U.S. capital exports at $6.5 billion annually, a figure much higher than is currently considered as a practical possibility. All such estimates are based upon a full-employment program at home and reasonable stable world conditions after the war. See National Planning Association, *America's New Opportunities in World Trade*, Washington, 1944.

VIII. THE POLITICS OF LOANS

The volume of capital outflow and the uses to which it is put depend in the first place upon the political state of the world. Foreign investment will not proceed on any large scale unless there is established a durable peace, guaranteed by cooperation and agreement among the leading nations. Nor can long-range economic development prosper in countries which have not yet attained an inner democracy and unity. Best conditions for profitable investment are always provided in countries which are expanding economically and growing democratically. The best example of this is our own country during the period of rapid industrial development in the latter half of the 19th century when we became the Mecca of foreign capital investment.

At the same time, it must be recognized that the political conditions for the investment of foreign capital will be quite different than those which prevailed before the present war. The area for the uncontrolled, old-type investment by private combines seeking special privileges within the weaker countries will be considerably reduced. Democratic, resurgent nations, liberated from the Axis, will not accept humiliating terms. In these countries, as well as in many countries of a colonial economy which have increased their industrial capacity during the war, there will be much greater insistence upon national control of foreign economic activity. In some European countries the agrarian reform and nationalization of a

portion of the economy, and in colonial countries the higher level of the national movements, will bring about much greater participation of the national government in joint investment activity with foreign capital.

Yet, only the completely unreconstructed financial tycoon would refuse to do business with new people's governments or nations which have taken measures of nationalization. The disastrous result of a political-economic policy of isolating the Soviet Union are by now pretty well appreciated. And today both government and business count on the great benefits to be obtained from an expansion of exports to the Soviet Union. In this respect, the only limiting factor acknowledged is the amount the Soviet Union will be able to spend for our products. For example, Bernard F. Haley, Director of the Office of Economic Affairs of the State Department, says: "A very large expansion of our Russian trade is a real and early possibility. The principal limiting factor will be the amount of dollars available to the Russians from their exports and otherwise." *

Our experience should teach us that far from serving as a hindrance to world trade the progressive internal political and economic overhauling of a nation can provide a great stimulus to economic expansion in the world.

It will be necessary to bring foreign investment activity into line with our present foreign policy. A foreign policy based on the coalition of the leading nations for peace is quite different than the foreign policy which prevailed during the 'twenties when our capitalists engaged in their first large-scale capital exports.

The most obvious instance in which this applies is Germany. In general terms, the policy after the last

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* Speech before the 31st National Foreign Trade Convention, October 11, 1944.

war was to restore and build up Germany as a counterweight to the Soviet Union and the people's revolutions in Europe. She became the new Eldorado of capital investment. American and British capital went to stabilize her finances and expand her trade, to restore and improve her heavy industries, to extend and modernize her transport. But now investment will have to be directed in accordance with a world security policy, preventing the resurgence of German imperialism and strengthening the democratic nations. It will become politically necessary to prohibit investment which will have the effect of restoring the German monopolies and cartels.

China typifies still another aspect of the problem of coordinating investment activity with foreign policy. Since 1898 our businessmen have dreamt about the vast China market. But this remained a fantasy because China remained disunited and feudalistic, and we helped keep her that way by participating with other foreign powers in carving her up into various spheres of influence. Today our policy recognizes the need for a democratic and united China arising from this war, fully able to stand on her own feet as one of the four powers upon whom depends world security. Through the unity China will have to achieve to save herself from Japan there also arises the driving force for a complete economic overhauling of its antiquated agrarian system. That system will have to be transformed, as is being done in the democratic-Communist area of the Northwest, before a basis can be established for the products of American industry. Only then will it be possible to speak realistically of 20,000,000 tractors and millions of other things for China. We cannot have the vast market of our dreams without the political changes which will lead to the actual emergence of China as a great power. She epito-

mizes the real problem posed for us by the colonial world and emphasizes the role that our policy and our industry are called upon to play in helping transform that vast sector of the world.

India serves as an example of still another key problem. India's national independence and economic growth are closely related to the rivalry between Britain and the United States. American capital is very desirous of expanding its activity in India in productive investment and trade. British capital is intent upon regaining the positions in India lost during the war and expanding the India market for its own products. Yet, neither the objective of British or American capital can be obtained unless India is freed from its colonial status and enabled to embark upon agrarian reform and rapid industrialization. A free India, modernizing itself both politically and economically, will provide economic opportunities big enough for both British and American capital. A colonial Inda, in which Britain and the United States fight each other for favored economic positions, will greatly restrict the field of profitable capital investment. It will also result in a further weakening of Britain's position, for she will not be able to compete successfully against both the Indian national movement and American industry.

Britain is unable alone to provide the vast economic means now demanded by India. On the other hand, if she accepts the inevitable participation of American capital in India this will result in the speedier development of this vast country and will expand world trade, enabling Britain to increase her exports and obtain the foodstuffs and raw materials needed for home prosperity. Britain, therefore, will be called upon to make concessions to the Indian national movement as well as to American capital,

as a necessity of her own well-being. But unless this problem is handled by the British and American governments in a spirit of world cooperation, in which the United States is also willing to make concessions to Britain in other world markets, it will lead to a sharpening of the Anglo-American conflict and consequent endangering of world peace.

Another field in which the political supervision of capital export is of great importance is Latin America. Particularly because of the predominant role of investment capital from the United States in most of Latin America, and the Hemisphere security policy being pursued, our economic relations must be integrated into a more highly developed democratic inter-American policy. Resumption of the policy of the 'twenties, when most of our direct capital investment went into the exploitation of Latin America's natural resources and gave a lopsided character to her economic development, would be disastrous. That type of investment is most often associated with economic and political support to the most reactionary, anti-industrialization groups within Latin America. Our economic power must be utilized to hasten democratic development and industrialization, and it is in that form that it will be most welcome in Latin America. It is only by such employment of our capital that we can have the great market which Latin America can give our industry. Mexico, for example, would have remained totally unappreciative of our tractors and our steel products without its agrarian reform and its progressive policies of economic development.

To a large extent this is being recognized. The estimate of the Coordinator of Inter-American Affairs on post-war needs, cited previously, recognized that this need must be met almost entirely by capital exports in the form of

heavy industrial products. Loans issued through the Export-Import Bank are being increasingly employed in the construction of new industry, such as the big steel combine in Brazil and a foundry in Mexico. Larger portions of our capital export activity are being channeled through the *fomento* (development) organizations set up by Latin American governments. We are beginning to show some real political discrimination by refusing to render aid to the fascist regime of Argentina.

The various new conditions cited above will have the effect of expanding investments and trade, and not of restricting them as some old-line financiers claim. It is true that the "traditional" type of investment, which in most cases nourished the forces of reaction at home and abroad, will have less chance of success in the post-war world. But the new fields which will be opened by an economic policy harnessed to the aims of expansion of the world market and security will far exceed anything that was possible in the past.

If foreign investments are to serve a cooperative policy there will have to be greater governmental supervision. The International Bank for Reconstruction and Development, proposed at Bretton Woods, will supply this on a world scale only for a portion of foreign investments. Our subscription to the Bank is slightly over $3 billion, which represents only a small part of the long-term capital outflow required in the post-war. The expansion of the credit activities of our government, in addition to the International Bank, is also being currently considered. These include, as described by Assistant Secretary of State Dean Acheson, the repeal of the Johnson Act which prohibits loans to countries defaulting their World War I debt, and the expansion of the lending authority of the Export-Import Bank to perhaps $5 billion. In

addition to these measures, the government program includes provisions to check the nature of foreign loans by private bankers through some such organization as the Securities and Exchange Commission.

Above all, we will want to make sure that our foreign investments, whether from government or private sources, are not used to restore or strengthen fascism anywhere and that they serve the interests of world security. In this respect, the Economic and Social Council of the International Security Organization proposed at Dumbarton Oaks will undoubtedly play a most constructive and positive role.

The nature of the problem posed by post-war foreign investment is well placed by Herbert Feis, former Adviser on International Economic Affairs in the State Department:

"It will be the duty of those who direct the outward flow of capital to see that it is used for productive purposes, that it does not interfere with American economic activity in vital fields, that it lessens—rather than accentuates—economic irregularity, that it nourishes governments that are responsive to our ideals of freedom, and rewards the peaceful countries, not the aggressive ones. Such, and not solely the prospect of repayment, are the terms of the problem." *

* Herbert Feis, *The Sinews of Peace*, Harper and Brothers, 1944, pp. 126-7.

IX. INDUSTRIALIZATION

One of the big problems over which orthodox businessmen are now breaking their teeth is how to get repayment for the large outflow of goods and capital to be expected after the war. It is pointed out that our exports exceed imports and that this relation is likely to continue for some time to come. In fact, the excess of exports over imports is certain to increase during the first post-war period. In addition to paying for this excess of American exports, borrowing countries will have to find the dollars with which to pay interest and installments on their debt. Let us suppose that during the next six years U. S. foreign investments should total $18 billion. If these loans are of a type which demand installment repayment as well as interest, the debtor countries may have to scrape together some two billion dollars to service them. And it is precisely to the countries where the largest investments are made that there is likely to be the greatest volume of American exports of machinery and other goods.

A nation can repay its debt and pay for its imports by sending us goods to be sold on the American market, or by sending us gold (i.e., after whatever dollar balances it accumulated during the war are used up). As a rule, they have little monetary gold available, since the United States holds about 70 per cent of world stores. And if our exports to debtor nations continue to exceed our imports from them, theoretically they should find themselves perpetually in debt to us.

The "dilemma" is made plainer when comparison of the United States as a creditor nation is made with Britain when she held a similar position. Due to her great need for foodstuffs and raw materials from abroad, Britain had an excess of imports over exports. Through this excess she was able to guarantee the collection in Britain of interest and repayment on foreign loans. Now that her position has been reversed, the excess of imports over exports which continues to be a necessity of her economy, makes it theoretically impossible for her to meet her obligations as a debtor nation. Underlying this new situation, of course, is the long-range development which resulted in the United States emerging as the greatest industrial power in the world while Britain remained more or less static.

In any case, the United States presents a new problem in the history of imperialism. As a powerful creditor nation, whose exports will be far in excess of imports over a long period, it must find a way of realizing the return on foreign investment. As a matter of practical economics it would seem impossible to collect revenue from abroad in the manner made traditional by Britain. And yet, it is not in the nature of our present system for capitalists to invest large sums abroad the only return on which is the moral satisfaction that good is being done in the world. They will want a return on their money. On the other hand, keeping large blocs of idle capital at home would deprive many nations of the means for post-war recovery and result in mass unemployment within the country, eventually leading to catastrophe for the system.

This creditor-export relation leads some important business circles to resist vigorously a program of large capital exports. In connection with Bretton Woods, the opposition of men like Senator Taft and Winthrop W.

Aldrich has already been cited, and the political and economic motivation explained. But it is profitable to examine further the stock argument that "no loan should be made unless there is a reasonable prospect of repayment" (*New York Times,* Dec. 3, 1944). This may sound like good business horse sense. But the problem is not that simple, for it turns out, as already indicated, that the repayment of loans is a problem not primarily of the borrower. Debtor countries may acquire or develop the resources with which to make payments, but still be unable to pay, and through no fault of their own. And yet, if we were to keep our capital exports down to a level made "reasonable" by prospects of repayment in dollars collectable in the United States we would soon find ourselves stagnating at home, with millions of unemployed while gigantic accumulations of capital lie idle. It is not that reactionary business circles are opposed in principle to capital exports, or even to the kind which will bring no immediate revenue. They have favored the latter type of foreign investment when it served certain political purposes.

And the opposition now is more political than economic. This becomes apparent when we consider the kind of measures which become necessary to encourage capital export from a nation which is at one and the same time a great creditor power and a great exporter of industrial goods. Some new imperatives are created for the United States.

One measure, advocated by the Administration and widely supported by an important sector of the business community as well as by labor, is to lower tariffs and remove other restrictions to imports. This would open the vast American market to products which can be produced more efficiently abroad and would lead to some

readjustment of the protected industries at home. But the main consideration, as shown by our trade experience in the past three decades, is that the volume of imports will parallel the level of our industrial production. Seventy per cent of our imports consists of raw materials or semi-finished products for further fabrication. Full production at home would thus lead to a higher level of imports, and this can be raised even further by reducing our tariffs, as is demanded by Britain and other countries.

Greater imports into the United States would help solve the problem of repayment for a number of countries, but it is extremely doubtful that the over-all relationship of excess of exports over imports can be basically altered in the near future. Therefore, large capital exports will have to be continued to finance the purchase of capital goods from this country.

Government can be expected to play a much greater role than in the past in foreign lending. It will have to extend large loans, on long and easy terms, and this will have to be done out of self-interest because without such lending we cannot meet our own problem of unemployment. Private capital will also be compelled to find investment abroad, on such terms as are available, or submit to higher rates of taxation of idle capital to make possible an extensive government program of foreign lending.

Reduction of tariff barriers and increased government lending are necessary for many reasons and should be seriously undertaken. However, the repayment problem created by the United States as a creditor nation can be solved in the long run only through the rapid progress of industrialization abroad. In other words, if our capitalists expect their investments to produce a reasonable rate of profit upon which they can collect they must put their capital to work in productive enterprises which will result

in industrialization and the general development of foreign economies. The industrialized countries provide the best markets and are usually the most profitable borrowers.*

This situation favors a change in the nature of U. S. private investments abroad. Large and profitable investments can be made in foreign countries providing that these investments are made in industrial and other productive enterprises which adopt the economic citizenship of the country in which they are situated. Investors would have to be satisfied with a lower rate of profit receivable in the United States, and a higher portion of income from foreign properties would have to be reinvested in the economy of the foreign country and in higher wages for its workers.

Traditionally, the reverse occurs. Foreign enterprises, especially in economically backward countries, operate at a high rate of profit by exploiting low-paid workers, and send the surplus capital thus created back to the home country. As long as this type of investment remains predominant, capital export has the effect of retarding industrialization for it seeks investment primarily in the exploitation of natural resources for export to the industrialized home country. It was primarily in this fashion that Britain obtained a steady stream of rentier income from abroad. And it is also true of the United States, particularly in Latin America, the biggest field of

* There need be no fear that industrialization would cut down imports from the United States. It is a well-established fact that the more industrialized countries offer the best markets. During the 'thirties, for example, about 20 per cent of our exports went to the 47 million people of the highly industrialized United Kingdom, while less than three per cent went to China whose population is 450 million. Canada, with its 12 million people, buys from us each year almost as much as all Latin America which has a population of 130 million.

American investment, where the exploitation of natural resources by U. S. oil and mining companies lead to the export of both minerals and profits to the home country with very little benefit to the Latin American peoples.

The investments called for today—and the only kind which will prove acceptable to most countries—are for long-range industrialization programs. This development, of course, is not entirely new. For a number of years before the war some of our industries have been establishing plants abroad for the manufacture or assembly of products to be sold in the foreign market. And during the war in a number of Latin American countries, North American producers have invested in joint enterprises with Latin government and private capital to construct basic industrial plants. Under new conditions, arising from our own position as the only big creditor nation and from the political advance of borrowing countries, this type of investment, often in partnership with private or government capital of the foreign country, may in time become predominant. In any case, the unique position of the United States favors that kind of investment as opposed to the type which predominated in British imperialist expansion and in our own economic penetration abroad until now. This is recognized by forward-looking business leaders like Henry J. Kaiser and others. A break with traditional policies will be required. The fact that objective conditions and the requirements of security favor such a turn will make it easier for important big business sectors to initiate new investment policies.

X. WE FIGHT FASCISM

The struggle over Bretton Woods and similar issues reflects a deep-going conflict within American business circles, the outcome of which is of highest importance to the nation as a whole and to the world. It extends beyond the Bretton Woods proposals to include every phase of American foreign economic and political policy. The conflict is inseparable from our economic and political prospects at home. In its simplest terms the issue can be put this way: shall we harness our great power to the task of assuring economic security for our people and peace in the world, or shall we permit it to be used to destroy peace abroad and prosperity at home.

It is the conflict of this war. Our policies of the inter-war years contributed to the rise of fascism abroad to the point where it was necessary to fight the greatest war in history to prevent its domination of the world. The approaching military defeat of fascism in Europe and Japanese military fascism in the Far East clears the way for the moral and political extirpation of fascism by the liberated peoples. In their struggle to prevent a fascist comeback the peoples open a new era of democratic and progressive advance in Europe and Asia. Our own future cannot be separated from this great struggle of our times. We must use our power to help consolidate an anti-fascist world.

As a nation, we cannot afford to use our power in any other way. When we fight the economic isolationists, advo-

cates of a grab-all policy and of an economy of poverty, we are fighting against fascism in America and in the world. Germany and Japan demonstrate that an aggressive imperialism gives birth to fascism. For us, as well as Britain, this is the main danger which we must foresee and forestall.

Labor understands this. The C.I.O. has demonstrated the highest level of understanding by relating the problems of the worker to those of the nation as a whole. It now acts and thinks in terms of broad coalitions of labor with government, employers and middle classes to defeat reaction and pro-fascism and obtain the objectives of the peace at home and abroad. It knows that the maintenance and growth of the coalition of national unity which defeated reaction and elected Roosevelt in 1944 is the key to a home policy of prosperity and a foreign policy of cooperation for world security.

Our capitalist system of production is now called upon to exert itself for the tasks of victory and peace with the same energy with which it met the responsibilities of war. How well it fulfills this task will determine the course of our history in the next decade and influence deeply developments throughout the world.

But the capitalist productive system is not an inanimate object set apart from the important political changes taking place within the country and in world relations. It is in motion, constantly changing as a result of inner political conflicts as well as of the impact of world events. An international relationship in which we must share with Britain and the Soviet Union the main responsibilities of security in a world which is radically different than what we have been accustomed to in the past two decades must bring about some important alterations and innovations.

We must accept new forms and standards of foreign investment and trade when we deal economically with the socialist Soviet Union which again offers a new and vast market for our products. The traditional form of capital export and exploitation of colonial resources will undergo some important qualitative alterations to meet the new conditions of greater political freedom arising in the economically backward countries. As a great creditor nation whose internal resources are so tremendous that we cannot in the foreseeable future import more than we export we present something new in world capitalist experience. And this also creates the necessity for what may be termed a more progressive form of capital export, devoted predominantly to the industrialization and modernization of the economically backward countries. The weakening of Britain at home and in the Empire, confronting her with the sharp alternative of fascism as a "way out," presents our country with the great responsibility of lessening the Anglo-American rivalry, of preventing it from reaching the stage of serious conflict and finding ways of restraining those pro-fascist forces in our country which would encourage Britain to play the role of reaction in Europe.

But such changes do not automatically take place in response to the new necessities. They are brought about by the will of men. And that is why we have the sharp conflict within the country against the most backward political and economic groups which are resisting the changes made imperative by a new turn in world history. In the process of this conflict there take place those inner political changes which affect the operation of capitalism as a system. The further development of the political coalition which elected Roosevelt will hasten the renovations which will have to be made to reach the full employ-

ment of our economy, for some time to come within the limits of capitalism, but of a capitalism whose limits are neither static nor inflexible. Catastrophe awaits us if we should permit the direction of national policy to slip into the hands of men who have fathered a Hitler and will not hesitate to call his American counterpart into power should the occasion demand. There is ample room within a coalition for jobs and peace for those who believe that socialism is inevitable as well as men who think that private enterprise is the greater good. If it is agreed that fascism must not come and that capitalism in our country must be made to serve the interests of economic and world security, the least painful way will be found towards progress.

Will capitalism provide jobs for peace? Not the capitalism of the 'twenties and the 'thirties, nor a capitalism turned fascist. It will have to be in our country a capitalism in which barriers to democratic growth and the expansion of economy are reduced, in which labor will come to play a much bigger national role in cooperation with the progressive middle classes and anti-fascist industrialists. It will be a capitalism whose immediate future will be determined by its capacity to provide jobs for peace.

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